

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

LUNA PIER HOUSING COMMISSION

Financial Statements

June 30, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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This discussion and analysis of the Luna Pier Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

Entity-Wide Statements

The combined financial statements show, in one place, all the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded the following Federal Assistance:

	<u>Year 2004</u>	<u>Year 2003</u>
Operating Subsidies	\$ 137,141	\$ 154,183
Capital Projects Funds	170,273	123,261

The Commission's cash position decreased during the year; our fixed assets after depreciation increased, and Net Assets increased. The following represents the aforementioned positions:

Cash	\$ 116,658	\$ 189,740
Fixed Assets, net of Depreciation	2,297,797	2,235,015
Net Assets	2,386,183	2,366,872

Our cash position decreased \$ 73,082 as a result of reducing our liabilities by \$ 7,017, an increase in our current assets by \$ 22,594, and purchase of fixed assets with the balance.

Fixed asset acquisitions included Site Improvements, carpeting in common areas, and unit renovations in the senior units.

Net Assets increase \$ 19,311; this is the result of an increase in Net Assets from Operations \$ 7,550, and minor corrections in prior year accruals.

The Commission provided the following housing for low to moderately low income families as follows:

	<u>Year 2004</u>	<u>Year 2003</u>
Low Rent Public Housing	102	102

General Fund Budgetary Highlights

The Commission approved an operating budget on March 28, 2003 for the fiscal year ending June 30, 2004, for the Low Rent Program; we amended the budget on August 25, 2004. The revision consisted primarily of the following adjustments:

	<u>Original</u>	<u>Revised</u>
Utilities	\$ 95,200	\$ 112,100
Increased due to rate increases during the year		
Employee Benefits	78,710	90,500
Increased due to increases in employee insurance cost		
HUD Operating Subsidies	144,804	137,141
Decrease from original eligibility do to proration mandated by Congress		

Other minor line item changes occurred, the net result of the revision increased the projected loss from \$ 9,256 to \$ 38,938. The Commission has sufficient operating reserves to absorb the estimated budgeting loss.

The actual loss in the Low Rent Program, after adjustments to convert the budget from an acceptable basis of accounting approved by HUD to Generally Accepted Accounting Principles, (GAAP), was \$ 189,498; the main difference between the approved budget and the GAAP financial statements is the recognition of depreciation expense of \$ 143,248.

In addition to the operating budget, our 5 year plan has been approved; the Commission completed the 2001 and 2002 Capital Projects Funds. The 2001 Capital Fund consisted primarily of Site Improvements, signs, landscaping, parking lot improvements, the 2002 Capital Fund consisted of new carpeting in common areas and the family units, along with hot water heater replacement in the senior buildings.

Entity Wide Capital Assets

At the close of the fiscal year, the Commission had \$ 4,150,575 in capital assets with accumulated depreciation of \$ 1,852,778. This represents \$ 203,498 increase or 5% over 2003. Major additions include the following:

Site Improvements, (Landscaping, signs)	\$ 51,391
Unit & Common Area Renovations, (Hot water heaters in senior units, carpeting in common areas)	152,107

Commission's Position

The Executive Director's position changed in September 2003; the previous director retired after serving the Commission for over 25 years. The past administration scheduled, contracted and completed the Capital Fund Projects within the allotted time, however, due to construction delays and poor weather conditions, the process had fallen behind. The completion dates of the projects were within HUD allowed timeframes; however, the current administration believes the Capital Fund Projects can be started and completed in a more timely manner; the 2003 and 2004 Capital Fund Projects will begin in the next fiscal year (2005) and be completed in early fiscal 2006.

The Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income families.

Della Sudek, Executive Director
Luna Pier Housing Commission

John C. DiPiero, P.C.

Certified Public Accountant

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Hemlock, Michigan 48626
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Board of Commissioners
Luna Pier Housing Commission
10885 Ellen Street
Luna Pier, Michigan 48157

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Luna Pier Housing Commission as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments* as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Luna Pier Housing Commission as of June 30, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 7, 2004 on my consideration of the Luna Pier Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Certified Public Accountant

December 7, 2004

LUNA PIER HOUSING COMMISSION
Statement of Net Assets
June 30, 2004

ASSETS

C-3080

CURRENT ASSETS

Cash & Cash Equivalents	\$	116,658
Accounts Receivable, (net of Allowance of \$ 2,239)		3,543
Prepaid Expenses		<u>44,019</u>
Total Current Assets	\$	164,220

NON CURRENT ASSETS

Land	\$	159,762
Buildings		3,581,860
Furniture, Equipment- Dwellings		74,042
Furniture, Equipment- Administrative		65,825
Leasehold Improvements		269,086
Accumulated Depreciation		<u>(1,852,778)</u>
Total Non Current Assets		<u>2,297,797</u>

TOTAL ASSETS \$ 2,462,017

LUNA PIER HOUSING COMMISSION
Statement of Net Assets
June 30, 2004

LIABILITIES

C-3080

CURRENT LIABILITIES

Accounts Payable	\$	20,070	
Accrued Liabilities		4,026	
Accounts Payable- Other Government		13,118	
Compensated Absences		9,957	
Tenants Security Deposit		21,748	
Deferred Revenue		<u>1,123</u>	
<u>Total Current Liabilities</u>	\$		70,042

NONCURRENT LIABILITIES

Compensated Absences		<u>5,792</u>	
<u>Total Liabilities</u>	\$		75,834

Net Assets:

Investment in Fixed Assets net of Related Debt	\$	2,297,797	
Unrestricted Net Assets		<u>88,386</u>	
<u>Total Net Assets</u>			<u>2,386,183</u>

<u>TOTAL LIABILITIES & NET ASSETS</u>	\$	<u>2,462,017</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements.

LUNA PIER HOUSING COMMISSION
Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2004

<u>OPERATING REVENUE</u>	<u>Business Type Activities</u>
Tenant Rental Revenue	\$ 273,821
Tenant Revenue- Other	2,970
HUD Grants	345,249
Interest Income	432
Other Income	<u>10,077</u>
 <u>Total Operating Revenue</u>	 \$ 632,549
 <u>OPERATING EXPENSES</u>	
Administrative	\$ 154,730
Tenant Services	6,639
Utility Expenses	111,940
Ordinary Maintenance	146,879
General Expenses	<u>47,666</u>
 <u>Total Operating Expenses</u>	 <u>467,854</u>
 <u>Operating Income (Loss)</u>	 \$ 164,695
 <u>NONOPERATING REVENUES (EXPENSES)</u>	
Extra Ordinary Maintenance	\$ (13,017)
Casualty Losses	(880)
Depreciation Expenses	<u>(143,248)</u>
 <u>Total Nonoperating (Expenses)</u>	 <u>(157,145)</u>
 <u>Change in Net Assets</u>	 \$ <u>7,550</u>
 Total Net Assets- Beginning	2,366,872
Prior Period Adjustment: Correction of prior years accruals	<u>11,761</u>
 Adjusted Beginning Balance	 \$ <u>2,378,633</u>
 Total Net Assets- Ending	 \$ <u>2,386,183</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements.

LUNA PIER HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended June 30, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 271,921
Payments to Suppliers	(338,066)
Payments to Employees	(156,665)
HUD Grants	345,249
Other Receipts (Payments)	<u>10,509</u>
Net Cash Provided (Used) by Operating Activities	\$ 132,948

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(206,030)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (73,082)
Cash Balance- Beginning of Year	<u>189,740</u>
Cash Balance- End of Year	\$ <u>116,658</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 7,550
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	143,248
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(2,631)
Prepaid Expenses	(12,863)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	14,694
Accrued Liabilities	968
Account Payable- HUD	(11,761)
Accounts Payable-Other Governments	(3,261)
Accrued Compensated Absences	(3,510)
Security Deposits	93
Deferred Revenue	<u>421</u>
Net Cash Provided by Operating Activities	\$ <u>132,948</u>

The Accompanying Notes are an Integral part of the Financial Statements

LUNA PIER HOUSING COMMISSION
Notes to Financial Statements
June 30, 2004

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Luna Pier Housing Commission, Luna Pier, Michigan, (Commission) was created by ordinance of the city of Luna Pier. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 98-1, 2	Low rent program	102 units
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In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

Notes to Financial Statements- continued

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all the Commission's activities.

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1999, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Notes to Financial Statements- continued

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash.

The composition of cash is as follows:

Cash:

General Fund Checking Accounts	\$ 116,358
Petty Cash	<u>300</u>
Financial Statement Total	<u>\$ 116,658</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 116,358	\$	\$	\$ 116,358	\$ 116,358
Petty Cash	<u>300</u>			<u>300</u>	<u>300</u>
Total Cash	\$ <u>116,658</u>	\$	\$	\$ <u>116,658</u>	\$ <u>116,658</u>

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 159,762	\$	\$	\$ 159,762
Buildings	3,456,279	125,581		3,581,860
Furniture & Equipment-Dwellings	72,884	3,690	2,532	74,042
Furniture & Equipment-Admin	64,154	1,671		65,825
Leasehold Improvements	<u>193,998</u>	<u>75,088</u>		<u>269,086</u>
	\$ 3,947,077	\$ 206,030	\$ 2,532	\$ 4,150,575
Less Accumulated Depreciation	<u>1,712,062</u>	<u>143,248</u>	<u>2,532</u>	<u>1,852,778</u>
	\$ <u>2,235,015</u>	\$ <u>62,782</u>	\$	\$ <u>2,297,797</u>

Note 4: Prepaid Expenses

Prepaid expenses consist of the following:

Prepaid Insurance	\$ 23,838
Prepaid Wages	<u>20,181</u>
	\$ <u>44,019</u>

Note 5: HUD Guaranteed Debt and Contributed Capital.

HUD guaranteed debt has been reclassified to Contributed Capital for all years ending after September 30, 1998. The reclassification is a result of all HUD programs converting from a basis of accounting prescribed by HUD other than Generally Accepted Accounting Principles (GAAP), to GAAP.

Notes to Financial Statements- continued

The following represents the original debt reclassification to Capital Contributions as a result of the above classification:

HUD Held Notes	\$ 1,639,717
FFB Notes	826,879

Note 6: Pension Plan

The Commission contributes to a Simplified Employee Pension Plan, (SEPP). The Commission pays 5 % of all eligible employees wages to the fund. Employees are 100 % vested as soon as they are eligible. Eligibility requirements are as follows: full time employee, over 21 years of age, and have worked for the Commission for at least three of preceding five years.

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 8: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Note 9: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 6,973,200
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Luna Pier Housing Commission

30-Jun-04

MI-098

	Account Description	Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	ASSETS:			
	CURRENT ASSETS:			
	Cash:			
111	Cash - unrestricted	94,910		94,910
112	Cash - restricted - modernization and developmen		-	-
113	Cash - other restrictec			-
114	Cash - tenant security deposit	21,748	-	21,748
100	Total cash	116,658	-	116,658
	Accounts and notes receivables			
121	Accounts receivable - PHA project			-
122	Accounts receivable - HUD other project			-
124	Accounts receivable - other governmer			-
125	Accounts receivable - miscellaneou	-	-	-
126	Accounts receivable- tenants - dwelling rent	5,782		5,782
126.1	Allowance for doubtful accounts - dwelling rent	(2,239)		(2,239)
126.2	Allowance for doubtful accounts - othe	-		-
127	Notes and mortgages receivable- curren			-
128	Fraud recovery			-
128.1	Allowance for doubtful accounts - fraud			-
129	Accrued interest receivabl			-
120	Total receivables, net of allowances for doubtful account	3,543	-	3,543
	Current investments			-
131	Investments - unrestricted	-		-
132	Investments - restrictec			-
142	Prepaid expenses and other asset	44,019	-	44,019
143	Inventories	-	-	-
143.1	Allowance for obsolete inventorie	-	-	-
144	Interprogram - due from	-	-	-
146	Amounts to be providec			-
150	TOTAL CURRENT ASSETS	164,220	-	164,220
	NONCURRENT ASSETS:			
	Fixed assets:			
161	Land	159,762	-	159,762
162	Buildings	3,456,279	125,581	3,581,860
163	Furniture, equipment & machinery - dwelling	72,197	1,845	74,042
164	Furniture, equipment & macinery - administratio	65,825	-	65,825
165	Leasehold improvement	84,202	184,884	269,086
166	Accumulated depreciator	(1,847,313)	(5,465)	(1,852,778)
160	Total fixed assets, net of accumulated depreciatio	1,990,952	306,845	2,297,797
171	Notes and mortgages receivable - non-curren			-
172	Notes and mortgages receivable-non-current-past du			-
174	Other assets			-
175	Undistributed debits			-
176	Investment in joint venture:			-
180	TOTAL NONCURRENT ASSETS	1,990,952	306,845	2,297,797
190	TOTAL ASSETS	2,155,172	306,845	2,462,017

Luna Pier Housing Commission

30-Jun-04

MI-098

	Account Description	Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	LIABILITIES AND EQUITY:			
	LIABILITIES:			
	CURRENT LIABILITIES			
311	Bank overdraft			-
312	Accounts payable ≤ 90 days	20,070	-	20,070
313	Accounts payable > 90 days past due		-	-
321	Accrued wage/payroll taxes payable	2,971	-	2,971
322	Accrued compensated absence	9,957	-	9,957
324	Accrued contingency liability			-
325	Accrued interest payable			-
331	Accounts payable - HUD PHA program			-
332	Accounts Payable - PHA Project			
333	Accounts payable - other government	13,118	-	13,118
341	Tenant security deposits	21,748	-	21,748
342	Deferred revenues	1,123	-	1,123
343	Current portion of Long-Term debt - capital project		-	-
344	Current portion of Long-Term debt - operating borrowing			-
345	Other current liabilities	1,055		1,055
346	Accrued liabilities - other	-		-
347	Inter-program - due to	-	-	-
310	TOTAL CURRENT LIABILITIES	70,042	-	70,042
	NONCURRENT LIABILITIES:			
351	Long-term debt, net of current- capital project			-
352	Long-term debt, net of current- operating borrowing			-
353	Noncurrent liabilities- other	5,792		5,792
350	TOTAL NONCURRENT LIABILITIES	5,792	-	5,792
300	TOTAL LIABILITIES	75,834	-	75,834
	EQUITY:			
501	Investment in general fixed asset			-
	Contributed Capital:			
502	Project notes (HUD)			-
503	Long-term debt - HUD guarantee	-	-	-
504	Net HUD PHA contributions	-		-
505	Other HUD contributions			-
507	Other contributions	-		-
508	Total contributed capital	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	1,990,952	306,845	2,297,797
	Reserved fund balance			-
509	Reserved for operating activities			-
510	Reserved for capital activities	-		-
511	Total reserved fund balance	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-
512.1	Unrestricted Net Asset	88,386		88,386
513	TOTAL EQUITY	2,079,338	306,845	2,386,183
600	TOTAL LIABILITIES AND EQUITY	2,155,172	306,845	2,462,017

Luna Pier Housing Commission

30-Jun-04

MI098

Combining Income Statement

Low Rent 14.850

Capital Projects
Funds 14.872

TOTAL

Line Item #				
	REVENUE:			
703	Net tenant rental revenue	273,821		273,821
704	Tenant revenue - other	2,970	-	2,970
705	Total tenant revenue	276,791	-	276,791
706	HUD PHA grants	137,141	208,108	345,249
708	Other government grants			-
711	Investment income - unrestricted	432	-	432
712	Mortgage interest income	-		-
714	Fraud recovery			-
715	Other revenue	10,077		10,077
716	Gain or loss on the sale of fixed asset			-
720	Investment income - restricted			-
700	TOTAL REVENUE	424,441	208,108	632,549
	EXPENSES:			
	Administrative			
911	Administrative Salaries	77,374	-	77,374
912	Auditing Fees	2,200		2,200
913	Outside management fees			-
914	Compensated absence	4,469		4,469
915	Employee benefit contributions-administrative	45,151	-	45,151
916	Other operating administrative	25,536	-	25,536
	Tenant services			
921	Tenant services - salaries	-	-	-
922	Relocation costs		-	-
923	Employee benefit contributions- tenant services	-	-	-
924	Tenant services - other	6,639	-	6,639
	Utilities			
931	Water	32,911	-	32,911
932	Electricity	38,533	-	38,533
933	Gas	40,496	-	40,496
934	Fuel			-
935	Labor			-
937	Employee benefit contributions- utilities			-
938	Other utilities expenses	-		-
	Ordinary maintenance & operations			
941	Ordinary maintenance and operations - labor	79,291	-	79,291
942	Ordinary maintenance and operations - materials & other	9,544	-	9,544
943	Ordinary maintenance and operations - contract cost	12,703	-	12,703
945	Employee benefit contributions- ordinary maintenance	45,341	-	45,341
	Protective services			
951	Protective services - labor			-

Luna Pier Housing Commission

30-Jun-04

MI098

Combining Income Statement

Low Rent 14.850

Capital Projects
Funds 14.872

TOTAL

Line Item #				
952	Protective services- other contract cost	-		-
953	Protective services - othe			-
955	Employee benefit contributions- protective service			-
	General expenses:			
961	Insurance premiums	30,100	-	30,100
962	Other General Expense:	161	-	161
963	Payments in lieu of taxes:	15,166		15,166
964	Bad debt - tenant rent:	2,239	-	2,239
965	Bad debt- mortgage:			-
966	Bad debt - other:			-
967	Interest expense:		-	-
968	Severance expense:	-		-
969	TOTAL OPERATING EXPENSES	467,854	-	467,854
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(43,413)	208,108	164,695
971	Extraordinary maintenance	13,017		13,017
972	Casualty losses - non-capitalized	880		880
973	Housing assistance payment:			-
974	Depreciation expense:	137,783	5,465	143,248
975	Fraud losses			-
976	Capital outlays- governmental fund:	-		-
977	Debt principal payment- governmental fund			-
978	Dwelling units rent expense:			-
900	TOTAL EXPENSES	619,534	5,465	624,999
	OTHER FINANCING SOURCES (USES)			
1001	Operating transfers in (out)	5,595	(5,595)	-
1002	Operating transfers out			
1003	Operating transfers from/to primary government			
1004	Operating transfers from/to component unit			
1005	Proceeds from notes, loans and bonds			
1006	Proceeds from property sales			
1010	TOTAL OTHER FINANCING SOURCES (USES)	5,595	(5,595)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(189,498)	197,048	7,550

LUNA PIER HOUSING COMMISSION
Status of Prior Audit Findings
June 30, 2004

The prior audit of the Luna Pier Housing Commission for the period ended June 30, 2003, did not contain any audit findings.

LUNA PIER HOUSING COMMISSION
Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements in Accordance with
Governmental Auditing Standards
June 30, 2004

I have audited the financial statements of Luna Pier Housing Commission as of and for the year ended June 30, 2004, and have issued my report dated December 7, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether Luna Pier Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, I do not express such an opinion. However, the results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs: 4-1, 4-2, 4-3, 4-4.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Luna Pier Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement, could adversely affect Luna Pier Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

December 7, 2004

LUNA PIER HOUSING COMMISSION
Schedule of Findings and Questioned Cost
June 30, 2004

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Capital Projects Funds		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
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Reportable condition(s) noted	_____ Yes	_____ X _____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No
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Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
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Reportable condition(s) noted	_____ X _____ Yes	_____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No
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Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	No	None	4-1, 4-2, 4-3, 4-4
Capital Fund Project	No	None	N/A

LUNA PIER HOUSING COMMISSION
Schedule of Findings & Questioned Cost
June 30, 2004

The following findings of the Luna Pier Housing Commission, for the year ended June 30, 2004, was discussed with the Executive Director, Ms. Della Sudak, in an exit interview conducted December 7, 2004.

Finding 04-1: Tenant Accounting Discrepancies.

A review of 7 files revealed the following tenant accounting discrepancies:

- None had citizenship forms.
- Four of the seven were missing Rent Election forms.
- Two files lacked third party income verification.
- Housing inspections not using HQS or UPCS format.

Recommendation

Compliance with HUD regulations concerning tenant accounting is required; in the prior years some test for forms was not considered, therefore the new management only continued the practices that were in place.

The previous administration had HQS experience, however, the current administration should consider upgrading and training to be compliant with this requirement.

I recommend the Commission comply with the above regulations.

Reply

Citizenship forms I have obtained a copy of citizenship forms and am having tenants complete them as they come into the office. Any not completed by the time of annual recertification will be completed at that time.

Rent Election Forms After attending the NAHRO seminar last January I began using the Rent Election forms. Since we have been doing this at recertification time, some of the files do not as yet have the forms. All should have them soon.

Housing inspections not using HQS or UPCS format Again, I used the same forms as in previous years. We will become familiar with HQS or UPCS before inspections in the spring and use them as a guide.

Finding 4-2: Cash accounts not collateralized beyond FDIC limits.

The Commission had over \$ 100,000 in cash at year end and no collateralization agreement in place.

Recommendation

HUD requires the Commission's cash position be secured by either FDIC or a separate collateralization agreement. The Commission's cash position at year end exceeded the FDIC limits; I recommend the Commission either obtain a collateralization agreement with the bank or open another account so as to keep less than \$ 100,000. in each account.

Reply

Cash Accounts - At the present time I am in negotiations with Standard Federal, Temperance, Michigan setting up a Money Market Account for excess funds.

Finding 4-3: Excessive Tenant Accounts Receivable.

The Commission's average outstanding tenant accounts receivable at year end was \$ 56., HUD recommends an average outstanding balance not to exceed \$ 15. per unit.

Recommendation

The average outstanding tenant accounts receivable balance went from \$ 9. per unit to \$ 56. per unit. Part of the cause was the recording of retro active rent, also some accounts should have been written off at year end.

The Commission does not routinely do credit checks on new move ins; credit checks may be an early indicator about the collectibility of an account in the future. The Commission has entered into repayment agreements with some clients but they have not been consistently enforced.

I recommend the Commission consider credit checks be conducted on all applicants before admitting the tenant; the Commission should enforce all repayment agreements, and consider writing off uncollectible accounts.

Reply

Tenant Accounts Receivable - Board Resolution 108 will write off a total of \$ 2,239.35 of Uncollectible accounts. There will be an intensive effort to lower the total accounts receivable to an acceptable level. The repayment agreement is being brought up to date.

We will take into consideration a credit check for all applicants.

Finding 4-4: No Credit Card Policy.

The Commission has acquired a Debit Card (which acts similar to a credit card) but has not adopted a Credit Card Policy. The State of Michigan requires the adoption of a credit card policy under P. A. 266 of 1995 (MCL 129.241).

Recommendation

The Commission is required to follow all Federal, State, and Local ordinances, which ever is the most restrictive. The State requires Governmental units (Commissions) to follow State laws and regulations.

I recommend the Commission adopt and follow a credit card policy. The policy should explicitly state the authorized users, prohibited uses, and proper accounting.

Reply

No Credit Card Policy - resolution 109 will establish a credit card policy; it will be presented at the January 12, 2005 board meeting.